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Dominion Companies Act

By PROF. W. S. FERGUSON, C.A.
Seburn, Ferguson and Baker

(Before Central Ontario Chapter, Nov. 16, 1934)

IN a review of some of the provisions of the Dominion Companies Act, it does not seem desirable to confine ourselves entirely to changes made recently although some of these will be stressed particularly. It may be that it has not been necessary for some of you to be acquainted with the Act as it was before the revision. Then, again, as some of you may be students, it will be in order to refer to some matters that are apt to be overlooked but which on examinations will be of some importance. Time available will not permit a consideration of all the provisions of the Act.

Students will very often state that companies may be formed under the Dominion Companies Act for any purpose with the exceptions that are stated in the Act. It should be observed that the purposes for which charters are issued must be within the jurisdiction of the Dominion Parliament.

Three or more persons who are of the full age of 21 years may apply for a charter and in doing so must give specific information in their application.

It is rather difficult perhaps to distinguish between Letters Patent and Charter, the former being the term used in the Act. Letters patent constitute a communication from the sovereign to his subjects and conveying, in addition to his greetings, certain information. In issuing letters patent relative to the incorporation of a company, this communication comes in fact from the sovereign's advisers and, in particular, from the office of the Secretary of State. The contents of these letters patent advise of the fact that a corporation has been formed with a certain name, with a certain authorized capital, and with certain powers. This constitutes the charter of the company so it may be said that letters patent constitutes the charter of the company so it may be said that letters patent constitute the form in which these particulars are given, while the particulars themselves constitute the charter of the company. A company is deemed to exist from the date of letters patent ,and notice of the issue of charter is given by the Secretary of State in the Canada Gazette.

Should a company find it necessary to have its charter amended, and this is put into effect, the letters patent issued at that time are supplementary to the original and hence are termed Supplementary Letters Patent.

A limited company is a corporation with power to act as an individual.

Capital Stock

The provisions relative to capital stock are worthy of close scrutiny. The letters patent may provide for shares of more than one class such as preferred, deferred, or others. Time will not permit the discussion of all the details relative to this but the point to be emphasized is that there may be shares with a par value and shares without a par value.

In the case of shares with a par value, the authorized capital,

with respect to those shares, is the total nominal amount of those shares.

Shares without par value may not be issued with a priority as to capital or being subject to redemption. Thus if shares are to be given a preference in winding up and distribution of capital, they must be par value shares. If they are issued subject to redemption, they must be par value shares.

When setting up the amount of consideration received for no par shares, the capital shall consist of the amount of such consideration exclusive of such part of the consideration as is set aside as distributable surplus instead of being shown as capital. Until a few years ago, the Dominion Act provided for true no par shares, that is, the whole amount of the consideration was set up as a credit to capital stock. This was modified in 1930 unfortunately and allowed a part of the amount of consideration to be credited to distributable surplus so that the legal or stated capital was less than the amount of consideration received. There was no restriction as to the division.

It had been hoped by many of us who made representations to parliament on the matter that this feature of the division of the amount received for no par shares might be eliminated in the interests of sound corporation finance. This was not done but a limit was set on the amount that could be diverted to distributable surplus. This must not be more than 25% of the amount of consideration received, that is, ordinarily.

A very strong objection to this feature of setting aside a part of the amounts as distributable surplus is that it opens the way to appropriation of dividends out of capital funds received. A company may pay dividends before it earns profits. The funds to pay the dividends will be taken out of the funds recieved from the issue of shares. The company may appear to be prosperous on account of the dividends whereas its capital funds are being depleted to pay them and a false impression is given.

There is another feature that seems very unfortunate also. Suppose a company buys out the undertaking of another company which had a surplus. The Act provides that if no par shares are issued in payment or part payment for a going concern acquired by the company and the company acquired had a surplus, an additional amount may be set aside as distributable surplus to an amount not exceeding the unappropriated balance of realized net profits of the going concern acquired. The Act does not define "unappropriated net profits" but it would seem reasonable to infer that the term would cover all earned surplus except such as has been appropriated for some definite purpose such as sinking fund reserves when the purpose of the fund is to pay debt and it may include that also as it is part of the earned surplus. Suppose, for example, that the concern taken over has an earned surplus of $300,000 and that no par shares to an amount of $500,000 were issued in part payment for the concern. Under the regular procedure, 25% or $125,000 may be set aside as distributable surplus but, in this case, a further amount of $200,000 could be set aside in this way so that the amount of distributable surplus set up may be $425,000. Strong exception may be taken to this provision because the surplus of the concern acquired is not in any sense a surplus of the company that acquired it and which purchased the assets representing that surplus as well as the assets representing its paid up capital. The purchasing company does not create a surplus in buying nor does it acquire one. This provision would appear to be very unsound.

No Par Shares

There is a further provision relative to no par shares. If a company had issued no par shares before this Act came into force and these shares had not been issued exclusively for money, and no part had been set aside as distributable surplus, the directors may enact a by-law for the purpose of declaring that specified part of the consideration received or, in other words, of the amount then standing at the credit of capital stock, shall be set aside as distributable surplus, that is, 25% of such amount may be transferred from capital stock to distributable surplus. This must receive the sanction of 2/3 of the votes cast at special meeting of shareholders called to consider the same and this may be followed by supplementary letters patent confirming the by-law. A peculiar feature in this is that the application is to shares not issued exclusively for cash. They may have been issued for promotion services or other intangible values. The position is then that if an appropriation for dividends is made out of that distributable surplus, it must be met by cash received for the issue of other capital stock and received, possibly, for the shares on which dividends are being paid.

It seems very unfortunate that departure has been made from the sound principle that should apply to no par shares. It does not appear that the motive promoting the legislation relative to no par shares has been what is recognized to be sound corporation finance. The provision may assist in promotion but are unsound as applied to the corporation and the public.

The consideration for which no par shares may be issued may be determined by the directors if not fixed by letters patent, supplementary letters patent, or by-laws.

There is a long list of incidental and ancillary powers in the Act and these are given to an incorporated company unless any of them are expressly excluded by the letters patent or supplementary letters patent.

Loans to Shareholders and Directors

The Act provides that a company shall not make any loan to its shareholders or directors, whether directly or indirectly, to provide financial assistance in connection with the purchase of shares in the company but exceptions are provided. It is not necessary to recite all of these but a company may make loans to persons other than directors who are in the employment of the company to enable them to purchase or erect dwelling houses for their own occupation. The company may provide funds for a trustee to purchase fully paid shares in the capital stock of the company to be held by or for the benefit of employees including directors who hold salaried employment or office in the company. A company may make loans to persons, other than directors, who are in the employment of the company to enable them to purchase fully paid shares in the capital stock of the company if these shares are to be held by them for their own benefit. A private company may make a loan to a shareholder or director to enable him to purchase shares in the company that have been held by an existing shareholder or by a person entitled to them through the death or bankruptcy of a shareholder. The last three of these may be exercised by by-law only.

From the above it is apparent that it will not cover the ground to say that a company may not make loans to it shareholders. The point is that except as provided in the Act it may not do so. Heavy penalties are provided if provisions are violated.

A company may pay commission to a person subscribing for shares

in the capital stock, or procuring others to do so, provided the payment of commission is authorized in the charter, that the commission paid or agreed does not exceed the rate that is authorized and, if the shares are offered to the public for subscription, the amount or rate per cent. of the commission must be disclosed in the prospectus. The Act does not say that a company may not apply any of its shares or capital money for purpose of commission but it does provide that except as is authorized in the Act and to which reference has been made, it may not do so. The reference to commission does not apply to the right to pay brokerage.

A company is required to have a head office within Canada and may change, by by-law, the place where the head office is to be situated. This change requires a two-thirds vote at a general meeting of shareholders called to consider the by-law and a certified copy of the by-law under the company's seal must be filed with the Secretary of State and published in the Canada Gazette.

If a company does not go into actual operation within three years after incorporation or for three years at any time does not use its corporate powers, the charter shall be forfeited. When non-user of the charter is alleged, it is for the company to prove that it has operated.

If a company is dissolved by voluntary surrender of its charter and it is found later that there are creditors with whom settlement has not been made, the shareholders are jointly and severally liable to the creditors if action is taken within one year from the date of dissolution.

If a person holds shares on behalf of others and receives dividends and misapplies them, it will be observed that the right of action by those entitled to receive the dividends lies against the trustee personally and not against the company which is absolved when it pays the dividends to the person registered as the shareholder.

If a company owns shares in another company, the directors may appoint a person to represent those shares at meetings of the other company and such representative possesses all the rights of a shareholder.

The importance of registered shares in the books of the company should be noted. Unless the transfer is made through a court order, it is not valid until an entry has been made in the register of transfers in a company's book of record. An exception to this is applied to shares listed on a recognized stock exchange. Even in that case, however, the company may treat as a shareholder the person whose name was last registered as holder of the shares until the new transfer is registered and pay any dividends accordingly.

Partly Paid Shares

If shares are not fully paid, they may not be transferred and registered without the consent of the directors. Out of this arises a point misunderstood by many students. Reference is made to the fact that if the directors permit the transfer of partly paid shares to a person who is unable to pay the balance, they are liable personally but this is not the case necessarily. The directors are liable only if they permit the transfer of such shares to a person who it is APPARENT may not be able to pay the balance. Of course, any director that does approve of the transfer may exonerate himself by following the legal procedure set out in the Act. It should be observed, too, that if partly paid shares are transferred with the consent of the directors, both transferee and transferor are liable for calls until they are paid.

It is stated frequently that a company may refuse the transfer

of shares belonging to a shareholder who is indebted to the company except, of course, shares listed on the stock exchange. It is important to notice that a company may refuse such a transfer where the charter or by-laws give that power to the directors.

The Act as it stands now permits the transfer of partly paid shares with the consent of the directors even if there are unpaid calls. Before the last revision the transfer of shares with unpaid calls was prohibited.

There is a point in connection with reduction of capital. The reduction may be made in any one of three ways. It may involve a payment to the shareholders on account of their paid up capital. It may provide that all or part of the reduction in par value may be applied to reduce the amount unpaid on the shares. The interest of creditors might be prejudiced under either of these cases so that if application is made for a reduction in one of these forms, the creditors must be advised and they must be protected because in reduction may involve a payment out of money or of less coming in. If, on the other hand, the reduction is made with a view to writing off a deficit, the financial position is not affected and the creditors are not affected either. In that case it is not necessary to advise the creditors.

Prospectus

The provisions governing prospectus in the new Act are intended to give greater protection to the investor and are to be commended on that account.

It is not possible to review all the information that must be given in a prospectus. Copy must be filed with the Secretary of State and must be signed by every person who is named therein as a director or proposed director. To issue a prospectus before it is filed with the Secretary of State opens the way for heavy penalties. A copy of the prospectus must have been delivered to an applicant for the company's securities at least twenty-fours hours prior to the acceptance of his application. If compliance is not made with this provision, the applicant may cancel his application within thirty days from receipts of notice that allotment had been made to him. This reference applies, of course, when shares are being issued to the public.

Penalties are provided for false statements in a prospectus which place a heavy responsibility not only on the directors but on experts who prepare reports on which contents of the prospectus are based. It is of interest to notice that the Act includes professional accountants under the expression "expert." This emphasizes the responsibility of the accountant who may prepare reports to be used in a prospectus.

The prospectus must state any preliminary expenses payable and any commission on shares payable.

Particulars must be given of any property purchased or acquired, or proposed to be purchased or acquired, when the purchase price in whole or in part is to be met out of the proceeds of an issue of securities, and also the specific purposes in detail and the approximate amounts to be devoted to such purposes for which the securities offered are to supply funds. Whether this last provision will be sufficient to meet a case that causes a good deal of difficulty remains to be seen. Coupled with it there must be given information as to securities which within the two preceding years have been issued or agreed to be issued for a consideration other than in cash; also a statement of the manner in which assets have been valued and, if by appraisal, the name of the appraiser. This is in the certificate of the auditors, together with other important features.

The difficulty to which reference has been made is that of re-

organization when the undertaking is purchased for the sole purpose of selling it to another company and receiving a much larger consideration payable, possibly, in securities of the new company. When the securities remaining in the hands of those who have promoted the reorganization after they have satisfied the purchase of the first company are placed on the market, the funds from those securities do not go to the company. The result is that a part of the issued capital must earn for the whole as there is a larger capitalization without a benefit to the company in the form of further capital funds. The tightening up of the prospectus may be beneficial in cases of this kind but the securitites have been issued by that time and are put on the market by the holders.

Provisions as to balance sheet and statement of profits should be helpful in cennection with the prospectus.

The Act prohibits persons selling shares to call at a residence, personally or by telephone. This is designed to curb a practice that appears to have been much abused.

The Act as revised permits stock dividends to be declared where it would have been legal to declare a cash dividend.

The books of account shall be kept at the Head Office or at such other place in Canada as directors may think fit. In case operating accounts are kept outside Canada, there must be records at the head office sufficiently comprehensive to enable the directors to ascertain the financial position of the company every three months.

Balance Sheets and Reports

The provisions relative to balance sheets and reports include some improvement over the former Act. A new feature which is important and very desirable is the requirement that at the annual meeting the directors must place before the shareholders a statement of surplus distinguishing earned surplus, capital surplus, and distributable surplus together with the changes that have taken place in each during the financial period. This is a step in advance. To show all classes of surplus and possibly items that do not constitute realized surplus, e.g. appreciation in market value of unsold assets, may be quite misleading.

In the case of public companies, a copy of the balance sheet, statement of income and expenditure, statement of surplus, and auditor's report must be sent to the shareholders not less than 7 days before the date of the meeting. This is in addition to placing these statements before the shareholders at an annual meeting and if there are shareholders who are not entitled to receive these copies by virtue of not having votes at the meeting, such may obtain the statements without charge on demand.

Among the items that must be included within a balance sheet are the amount of loans made to shareholders or employees; liability for taxes; amount of reserves for depreciation, obsolescence and depletion; amount received upon the issue of shares in capital stock which is attributable to capital; the amount set aside as distributable surplus or any balance remaining thereof; the amount of preliminary expenses incurred since the Act came into force or within three years prior to the date; expenses incurred in connection with any issue of share capital or bonds; and, if it can be ascertained from the books, the amount of goodwill, franchises, patents, copyrights, etc.

Where assets are pledged as security for liabilities, there must be a statement that the liability is so secured.

The fact that the liability for taxes, actual or estimated, must be

shown is desirable as these will affect the current position in the near future.

The fact that a company makes a provision for its income tax does not bind it necessarily to that exact amount and should not prejudice the company when seeking adjustments.

It is desirable, too, that the amount of depreciation reserves be set out clearly and not the net value of the asset alone.

The fact that preliminary expenses must be shown should prevent the hiding of these in the value of other assets. The same may be true relative to good-will, etc.

Statements

The statement of income and expenditure to be submitted at the annual meeting must show as a separate item the amount paid to directors as directors' fees. This does not apply to a managing director or directors holding salaried positions in so far as their salaries, apart from directors' fees, are concerned.

When consolidated statements are submitted by holding companies for the holding company and subsidiaries, due provision must be made for minority interests which is, of course, very essential. When not shown in this way, a statement of the auditor must be attached to the balance sheet of a holding company with particular reference to the manner in which losses of a subsidiary have been treated in the books of the subsidiary or of the holding company, or of both. Where complete information is not available, the auditor is required to qualify his certificate accordingly.

A director or officer of a company may not act as auditor and the Act provides that a person who is a partner of or in the employment of any director or officer of the company shall not be an auditor. The Act establishes the right of an auditor to attend meetings of a company where his report is to be considered.

While it is impossible, in the time available, to give a detailed discussion of all the provisions in the Act, there is one other to which reference may be made for the benefit of students especially. The Act provides that there may be an executive committee of directors to whom may be delegated certain duties. Confusion arises sometimes as to who appoints that committee. It is appointed by the directors and yet they cannot appoint such a committee on their own motion. Before they can do so they must submit the matter for the approval of the shareholders. The provision applies only to companies with more than six directors. You will notice this is not **six or more** but **more than six**. When the directors desire to appoint such a committee, they must compose a by-law which they submit to the shareholders and it is when the shareholders sanction it by a two-thirds vote at a special general meeting called to consider the by-law that the directors have authority to appoint the committee. It is clear that the shareholders may not appoint the committee and that the directors may appoint it only after they have the sanction of the shareholders.

It will be of interest to observe the workings of the 1934 Dominion Companies Act, particularly perhaps the provisions relative to the prospectus. In a number of respects the Act is an improvement over the former one but there would seem to be room for considerable improvement even yet. It is to be hoped that there will be at least a gradual improvement made until the provisions of the Act will go as far as possible to protect the investor and to promote sound corporation finance.

The Cost of Distribution

By G. H. ARMSTRONG
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(Before Toronto Chapter, Nov. 15, 1934)

EVERY business undertaking consists of the production and exchange of wealth in some form, chiefly commodities or services. All other activities are contributory only, and means to these ends. In one sense production also is a contributory activity, since it is directed only toward exchange, and the undertaking is not complete until the exchange has been effected.

Much time and effort have been devoted to the development of the best production methods. These have yielded almost incredible returns in the way of increased output, lower production costs and greater gross profit. Very little attention, on the other hand, has been given to determining the separate costs which make up total distribution expense. The extent and variety of distribution activities have grown almost unchecked. Their steadily mounting cost have not only dissipated the savings achieved in production, but in many instances have converted a substantial gross profit into a net loss.

There are definite reasons for this "lag" in systematizing distribution activities. At first there was no distribution problem, since a ready market existed in those great numbers of buyers everywhere who were eager to be supplied with good of all sorts. Even after the problem made itself felt, business in general did not scrutinize its distribution activities—it merely increased them in order to stimulate, in any way it might, a demand sufficient for the constantly growing output. The conception of control was still confined to manufacturing operations—because manufacturing costs lent themselves to more exact measurements; because manufacturing costs were a much larger percentage of total cost than they are now; and because selling and distribution were not so highly competitive as they are today.

Distribution Control Imperative

But the time seems to have come when the control of distribution costs cannot longer be postponed. Profits have shrunk. Manufacturing costs have been greatly reduced, and in most businesses have reached a low point beyond which improvement is not possible except with a large capital outlay which is not available. The total distribution cost of many a product has grown to be several times its manufacturing cost. And this distribution cost can be reduced without capital outlay.

The requisite for a satisfactory control of distribution costs is the knowledge and correlation of many separate, detailed facts—of outlay and corresponding income, of effort and corresponding result, of plan and corresponding performance, of potential and corresponding actual. In other words, it is necessary to know what to sell, where to sell, and how to sell.

The correct answers to these problems must be matters of research and analysis on the part of individual organizations. This research is being carried on by progressive firms under the titles of Sales Analysis, Market Research, and Distribution Analyses and Costs. These three groups of records are mutually dependent and

inter-related for their full significance, and all of them are necessary for an adequate control of distribution activities.

With the development of modern factories, machines and tools, new elements entered into production costs. The presence of these new factors out-moded the old methods of record-keeping and control, and forced the discovery of new ones. It was in answer to these needs that production-cost systems were initiated, with their time- and motion-studies, standard tasks and rates, machine and overhead burdens, depreciation reserves. Today, production-cost systems of some form are the established practice.

The present status of the distribution problem may be compared with that of the production problem when the earliest cost systems were adopted. There is no doubt about the widespread dissatisfaction, both among business houses and on the part of the consuming public, with the present excessive, exhorbitant and wasteful distribution activities. It is probable that no single business issue is more pressing.

Factors which Require Control

Some of the unfavorable conditions which are prevalent today and which could be corrected by a suitable control of distribution activities are the following:

Excessive sums are spent for selling and advertising. Even when these are recovered in the selling price, they tend to curtail net profits since the number of products sold falls short of that which could be attained at a lower selling price. In too many cases they are not recovered in the selling price, and thus must be regarded as a direct deduction from net profit.

Customers are solicited whose trade proves to be unprofitable. Profitable customers are often overlooked.

Products are vigorously promoted which later prove to be unprofitable. Profitable products are sometimes neglected in the selling program.

Dead stock accumulate in warehouses and stockrooms.

There exists a perpetual drive for volume of sales regardless of the cost of securing them. In the case of many a product, each article sold increases the net deficit for the period.

Uneconomic credit practices are employed. Excessive service in the way of shipping allowances and discounts is granted.

Unnecessary branches and warehouses are established or the necessary ones are withheld.

Saturation points are not recognized. Sales executives are forced to resort too much to indiscriminate sales pressure and too little to the development of new uses and products. The result is that selling expense increases at a greater rate than the volume of business.

Some sales territories are over-manned and others are under-manned.

Suitable incentive to salesmen is lacking, in that their compensation is not directly influenced by the amount of profit earned by them for the company.

Salesmen's activities are improperly organized and their time poorly spent.

Travelling expenses are excessive and are not coordinated with sales opportunities.

Magazine and newspaper lineage is purchased without discrimination—in the wrong media and quantities, and at the wrong times.

Too little consideration is given to unrealized profits—the sales that fail to be made, either because existing distribution activities are ineffectual or because the sales potential is not known.

Remedies will follow, in underlying principle, the remedies applied so successfully in the case of manufacturing. In general, they call for the association of specific outlay with related income, and as a result of this knowledge, the elimination of waste, and the selection of the most profitable distribution activities. To this extent, it is desirable to recall the experience in regulating production, as a guide to the proper ways of controlling distribution.

Distinctions from Costing Manufacturing

It would be an error, however, to press the analogy too far. A very important difference between the two situations is the relative number of variables involved. In manufacturing, a definite amount of power applied to a particular machine brings definite results—that is, results which are predictable within fairly close limits. The reason for this is that the variables involved are few. In selling, on the other hand, the variables are almost unlimited. In the place of the comfortable certainty regarding the action of machines, there are the extremely variable psycological reactions of both the buyer and the salesman. There are, in addition, the further variables of business conditions, financial conditions, crop conditions and labor conditions. None of these factors submit very well to prediction or control. This state of affairs, however, if properly understood, does not excuse or justify the absence of standards of some sort. In fact, it should serve to set up action in exactly the opposite direction, on the ground that, if these forces cannot be checked or evaded, it is all the more necessary that their influence be known, so that constant adjustments can be made to meet them to the best advantage.

Under the conditions which exist today, the question of whether a substantial gross profit is to be resolved finally into a net gain or a net loss, lies chiefly in the method of handling distribution.

What are Distribution Costs?

In general, distribution includes those activities which have to do with the exchange of values, as distinct from their production. Production cost ceases when the article is complete in form. Its disposal, and all subsidiary activities for this end, are distribution activities. Some of them follow production, others precede it. They include the creation of a market or demand, the actual selling of the commodity, its transportation and delivery, and the collection of payment for it.

Terminologies vary, and considerable differences of practice and opinion exist among business executives and accountants regarding the specific expense to be classified as distribution costs. The following list is therefore suggestive only, but may be considered typical:

> Advertising, salesmen's salaries, salesmen's commissions, follow-up work, salesmen's travelling expense, general sales expense, sales office salaries, sales office supplies, entertainment, postage, telephone and telegraph, sales office rent, insurance on office equipment, repairs on office equipment, sales office building expense, credit and collection expense, adjustments and returns, bad debts, warehouse inventories and expense, shipping expense, transportation expense.

Sometimes a distinction is made between distribution in the larger sense of the word, and physical distribution. In this case the last three items above are classified as distribution costs, and the remaining items as selling costs.

It is well at this point to look for a moment at the existing treatments of distribution costs. The three most generally accepted plans are:

1. Distribution Costs Deducted in Total from Gross Profit.
2. Distribution Costs Pro-Rated in total on some Arbitary Basis.
3. Distribution Costs Allocated Separately to some Significant Unit.

The great majority of large business organizations use one of the first two methods, preference being given to second. Relatively few have adopted the third. From a clerical standpoint the first two methods are very simple, and this largely accounts for their extensive use. In most cases it is probable that they were selected more for their clerical convenience than for their scientific soundness. The third method is certainly more difficult to apply, and in some businesses cannot be employed successfully. Although, for these reasons, its use to date has been limited, I believe that more thought should be given to this third method, with the purpose of relating particular selling costs directly to the specific commodities sold, wherever this is possible.

The proper treatment of distribution expense depends largely upon the nature of the individual business. The question of how sales expense or distribution costs should be applied is therefore one which could be debated indefinitely. For that reason I am not going to discuss any further the specific methods of handling distribution costs, but will dwell on more general suggestions which can be recommended for use in almost any organization.

Preparation of Budget

If selling and administration expenses are to be controlled, they must be considered in advance, before they are incurred. That is, they must be forecast. Expenses cannot be controlled after the money has been spent. The time to prevent unnecessary expenditures is before the actual disbursement of the funds.

This means, of course, that a scientific budget must be prepared. If we agree that the only effective instrument for controlling expense is the budget, it is well to consider briefly the chief requirements of a successful budget, in order of their occurrence:

1. Sales must be forecast.
2. Standards of expense must be set for each item of the sales forecast.
3. An organization must be set up to enforce the standards, or to authorize departure from them.
4. A system of reports must be established to check performance with standard.

A sales budget is the first necessity. I know of no way to assure the profitable operation of a business without first forecasting sales. In our own business this forecast takes the form of a sales quota. To fix this quota we must first determine both the sales potential and the cost of securing our share of this potential. At the close of the budget period, a series of reports is prepared stating the relation of forecast sales to actual sales and to sales potential, and the relation of budgeted expense to actual expense.

In most organizations it is necessary at the close of the month to secure the cost of sales. This is usually done by computing, for each item, the total quantity sold and the total sales revenue. The unit cost price is then applied to the total quantity sold, to determine total cost. The difference between this cost and the sales revenue is the amount of gross profit per item. The sum of the amounts of profit or loss on individual items is the total gross profit (or loss).

A report of this nature serves a definite and useful purpose, but it could be of considerably more value if certain additional information

should be included. For example—what percentage of total sales revenue does each individual product contribute? Which items are yielding the greatest profit? Which are a source of financial loss? What is the relation of sales to stock on hand What is the rate of turn-over per item?

To present this type of information to the Sales Manager is to render him a very valuable service. Through its use he is in a position logically and intelligently to adopt the correct measures for improving the sales position—perhaps to eliminate those items which contribute no profit or an insufficient profit, and those which are deficient in turnover; in the case of slow-moving items, perhaps to reduce their selling price or to resort to additional advertising activities. A full knowledge of the facts indicate which measures are the best to select.

Sales Control Reports

A report which is important for sales control is the analysis of sales by trading areas—states, cities, provinces, counties. In our business we show not only actual sales but also potential sales in each area. Then by a simple computation we arrive at the percentage of potential which is being secured in each section. Such a report, properly used, enables an organization to secure maximum sales from a difficult area, to arrange sales territories to the best advantage, to build or dismantle branches according to actual need, and to curtail or expand distribution activities in various trading areas.

Another report of vital importance to the Sales Manager is the analysis of activities by salesmen. Too often we are so engrossed with the cost of securing business that we overlook the high cost of **not** securing business. It is desirable to consider the number of those calls which produce no apparent results.

In order to properly organize salesmen's activities, a report should be available showing the principal products sold by each salesman, the percentage of the potential in his territory secured by each man, the amounts of returns and allowances from the territory, and the salesman's compensation and travelling expenses in relation to the budget. If a quota plan is in effect, these quotas, being in common based upon a definite relationship to the potential in each territory, serve as a standard measuring rod to indicate relatively productive and non-productive territories. As a result, the achievements of each salesman are comparable with those of every other salesman. To view sales solely from either a gross or a net viewpoint is dangerous because it obscures the significant facts—facts such as the presence of excessive returns and allowances in certain territories, or the absence of an adequate profit return.

A report which ranks in importance with the balance sheet is the branch profit and loss statement showing sales by classes or commodities, and the amounts of returns, allowances and policy adjustments. If the statement includes also such expenses as salesmen's travelling expenses and salaries, branch office salaries, light, heat, rent, janitor service, advertising, administration costs, bad debts—there is available a complete set of related facts which may be reviewed from many angles to disclose the existence of any unfavorable conditions which can be eliminated. Also, such a statement shows at a glance the relative contributions of each territory to final net profit.

Another report which may exercise a considerable effect on distribution costs is an analysis of sales by customers, with a parallel analysis of selling expense (where the latter is possible). Such a report, showing sales to each customer by class of merchandise, indicates

those customers whose purchases tend to decrease in volume; and those who are not taking advantage of the complete line of products. In the average organization it would disclose cases in which the total purchases of the period were exceeded by the cost of making the sale. It would reveal other cases in which the net profit was so small as to be negligible. Information of this sort regarding specific customer accounts enables the salesman to eliminate unprofitable calls, to devote special attention to those products in the line which the customer is not purchasing, to make more effective use of advertising, and considerably to reduce total selling expense.

Another valuable report is the analysis of sales by class of customer—for example, chain stores, manufacturers, mail order houses, retail stores, etc. It has not infrequently been proved from such a study that too great percentage of the total sales volume was contributed by those classes of customers from whom there was little or no possibility of regularly realizing a profit, and that too little sales effort was being placed among those classes of trade whose orders consistently yielded a profit.

In the past years there has been a tendency on the part of many organizations to secure volume of sales even at a complete sacrifice of profit on a considerable portion of the transactions. Sales have been made at absurdly low prices. Such orders were accepted by sales executives on the principle that to increase the volume of factory output was to reduce operating overhead. I am not prepared to state how any company should manage its business, but I do believe that there are many facts potentially available to us which, if properly coordinated and used with discrimination, would prove directly instrumental in increasing our profits—either through increased sales volume, through reduced distribution costs, or through both.

Payment by Results and Factory Control

By H. E. KEARSEY, A.C.W.A., A.M.I.A.E.

(Reprinted from the Cost Accountant)

THE scope of the title is intended to cover the Bedeaux and the Haynes Manit schemes.

Of the two, the Bedeaux scheme only has been applied in Great Britain. While, in matters of broad principle, the different applications of Bedeaux can be said to be uniform, during the nine years since its introduction in this country, certain modifications to non-essential features have sometimes been made to suit special conditions. When the term "Bedeaux" is used, however, the standard interpretation of the scheme is implied.

It is with the intention of taking a comprehensive view of all such methods rather than merely describing the uniform Bedeaux scheme that the heading "Work Unit Method" has been used.

Generally speaking, the Work Unit Method can be said to embrace three distinct functions:

(1) it is a method of measurement;
(2) it is a system of incentive payment;
(3) it is a system of factory control.

As a method of measurement, all labour activities are expressed in terms of some common denominator representing work units, thus allowing comparisons to be made between different jobs, processes, and departments. Measurements are made by careful work studies with a stop-watch. Under the Bedeaux scheme the unit of measurement is known as a "B."

As a system of incentive payment, it seeks to pay premium in proportion to the effective work expended in a job.

As a system of factory control weekly sheets are prepared for each department or section. These sheets contain a number of relevant control figures, indices, and costs, mainly in terms of work units.

Bedeaux Scheme.

The primary Bedeaux principle is to measure the amount of work in a job. As previously mentioned, the Bedeaux unit of work is called a B. It is the normal amount of work which an operator can do in one minute. That one minute is made up of a number of seconds of work and a number of seconds of relaxation. Although some jobs have more relaxation than this, depending on whether they are more tiring, whether they are done in high temperature, or whether they are highly repetitive, the sum of work plus relaxation always equals the B.

The normal rate of working is 60 Bs. per hour. The number of Bs. produced in an hour is known as the B. hour. Therefore, 60 Bs. per hour is known as a 60 B. hour. If an operator has average skill and experience, and is free from any restrictions, he should be able to produce 80 Bs. per hour or an 80 B. hour. This 80 B. hour is not, of course, a limit. Many operators can produce well over 100 Bs. per hour.

This is an example of the Bedeaux normal. If a man walks at three miles an hour, he is walking at normal pace: that is, working at the rate of 60 Bs. an hour. But if he walks at four miles an hour, he is working at the rate of 80 Bs. an hour. These figures are in terms of working speeds only. A man would not, of course, be expected to walk continuously at these speeds. A relaxation allowance is always included in the value for a job.

The value for a job is known as its B. value. It establishes the amount of effective work necessary to carry out a job under given conditions, and by specified methods. If conditions or methods change, the same B. value no longer applies. B. values can be based on operations and processes, however large or small. The value for one job may be 150 Bs. while the value for another may be .001 (one thousandth of a B).

A true B. does not include any allowance for lost time. While it is realised that, in practice, hindrances and waits must occur, the scheme aims at revealing such losses. To include an allowance in the B. would be to cover them up. At the same time, the worker must be protected against the loss of time and he, accordingly, receives credit in one of two ways.

If a hindrance is of a character which can be booked, he is credited with the actual minutes of waiting time. If, however, the hindrance is of a character which cannot be booked (i.e., very short waits occurring at frequent intervals), or if it occurs at regular

and recognised intervals, the worker receives a special credit known as "Process allowance."

Process allowance may be defined as "enforced idleness due to restrictions imposed by machine or process speeds."

The rate at which a worker produces over an extended period of time is known as a B. hour. For example, if a man produced 560 Bs. in a day of 8 hours, his B. hour for that day would be "70."

As regards the amount of payment for a job, the B. hour is only one factor of three. The two other factors are the hourly rate of pay of the worker and the scale of premium increments in relation to increased output. The only definite Bedaux principle is that there must be a guaranteed hourly rate, irrespective of the B. hour. That is, if a worker only produces 50 Bs. per hour, he will still receive his hourly rate of pay.

Bedeaux premium is calculated over a day's work and is posted in the factory on a special sheet, known as the posting sheet. This sheet shows both the B. hour and the premium for each day against the worker's name.

Under the usual Bedaux scheme, premium is paid on the basis of 75 per cent. payment for any increase of output over and above that required for a 60 B. hour. This method of sharing is exactly the same as a 75 per cent. Halsey premium bonus scheme. This division of premium is not an essential feature, and in some applications the percentage varies from this figure.

Here is an example of the method of calculation:—

Suppose the B. value for one unit of output is 10 Bs. and that a worker produces 60 units of output in a day of 8 working hours.

He will have produced 600 Bs. in 8 hours and will, therefore, have been working at a 75 B. hour.

At a 75 B. hour, 15 Bs. per hour or 120 per day, will rank for premium payment.

If the hourly pay of the man is 1s. 3d., or one farthing per minute, and the premium basis is 75 per cent. of output over a 60 B. hour, the man will have earned as premium:—

75 per cent. of premium Bs. X one farthing = 1s. 10½d.

Stated differently, the man's ordinary pay will be 1s. 3d. X 8 = 10s. He has increased his output over a 60 B. hour by 25 per cent. and he receives as premium 75 per cent. of 25 per cent. increase on 8 hours at his hourly rate, or

75 per cent. X 25 per cent. X 10s. = 1s. 10½d.

The above calcuations show that the standard Bedaux scheme, as regards premium computation, differs in no way from a Halsey premium bonus scheme with 75 per cent. share going to the worker.

An important characteristic of the Bedaux scheme is the method of paying premium to indirect workers and to foremen. Their premium is caculated weekly according to a formula which takes into account a number of factors, amongst which may be mentioned—

(a) the amount of indirect time worked in relation to the total number of Bs. in their department;

(b) the B. hours of the direct workers in their department;

(c) the waiting time for which the department is responsible;

and several other factors.

The amounts of indirect work necessary for a department when working at its various levels of activity are determined from careful investigations and study work. Sometimes, of course, indirect work can be given B. values.

The amounts of indirect work necessary for a department when working at its various levels of activity are determined from careful investigations and study work. Sometimes, of course, indirect work can be given B. values.

The third function of the Bedaux scheme is factory control. By means of Analysis Sheets, prepared weekly for each section or department, the labour effectiveness of the whole factory—with details of losses and waste—can be clearly shown. If the Analysis Sheets are extended to cover machine and plant effectiveness, the picture becomes even more complete.

These Analysis Sheets are rather too complicated to explain in detail. They do include certain key figures and indices which may be said to be of essential interest to Works Directors and Managers. An Analysis Sheet is ruled to contain the figures for thirteen weeks. This is particularly useful to purposes of comparison. Amongst the key figures may be mentioned:—

(a) The total number of Bs.: as an activity index.

(b) The department B. hour; as an index of the average level of the department, including waits, jobs not on Bedaux, and so forth.

(c) The various indirect ratios: the indirect work in each department is analysed under certain appropriate headings; the minutes for each category are collected weekly and expressed as a ratio to the total Bs. in the department.

(d) The actual indirect cost per 1,000 Bs.; as a cost index of indirect work when compared with the standard indirect cost per 1,000 Bs.

(e) The actual direct cost per 1,000 Bs.: as a cost index of direct work when compared with the standard direct cost per 1,000 Bs.

(f) The departmental effectiveness: as an index of the general level of effectiveness; it is the departmental B. hour adjusted by a cost factor—

$$\frac{\text{Total Standard Cost}}{\text{Total Actual Cost}}$$

(g) Losses for which the department is responsible (known as D.R. losses): an analysis, in minutes, under appropriate headings, of the losses which might have been eliminated by more effective management within the department.

(h) Losses for which the department is not responsible (known as D.N.R. losses): an analysis in minutes, under appropriate headings, of the losses which are outside the control of departmental management or sectional supervision.

The above illustrate the type of control figures which are shown on a Bedaux Analysis Sheet.

Generally, D.N.R. losses can be traced back to some more definite source of responsibility. For example. waiting time due to belt breakages, while D.N.R. to a production department can be charged to the maintenance department. Throwing losses of this nature into prominence often leads to important changes in organisation. An excess of lost time on account of machine breakdowns may lead to the installation of an organised system of maintenance inspection. Similarly, losses on account of low production and special allowances to learners and inexperienced workers may result in the creation of an employment department.

It must be emphasised that the Bedaux Analysis Sheet while an implement of cost control, may not easily be fitted into an existing

costing scheme as an integral part. Such a dovetailing is facilitated if costing by standards is being practised. The use of B. values and Analysis Sheets for costing purposes is rather involved and calls for experience and a special technique.

Bedaux is installed primarily as an incentive system and as a method of control. The difficulties and problems which have to be overcome during the application rather transcend in importance, at that particular time, the advantages likely to be secured by the immediate linking with any existing costing scheme. Furthermore, from the aspect of labour costs, it will be generally found that the measured standards will provide a wealth of information that was never previously available. This very fact will probably necessitate a reorganisation of the method of labour costing. The form which the reorgansation shall take, however, is usually very controversial. Shall the Analysis Sheet be modified to include any essential information previously given by the costing system? Shall the Analysis Sheet remain unchanged and the existing labour costing system be completely abolished? Shall both systems be maintained unchanged? Can the Analysis Sheet be modified to include overhead costs? Can the measured standards be used in the control of overhead costs? These and many other problems confront the Cost Accountant and the work study engineer.

Study Work

When studying a job, recorded times are qualified by a rating which takes into account certain observed factors upon which the values are based: i.e., speed at which the work is done, the effort involved in the job, and other relevant factors. Over and above this rating a relaxation allowance is added. This relaxation allowance is not a standard allowance, but varies with conditions of work, such as atmospheric temperature working position, periodicity of cycle, and so forth.

Each job is studied a number of times, different workers being studied at different periods in the day. The results of studies are then examined and compared by special methods before the values are developed.

Sometimes values can be developed by a method known as synthetic valuation. When studied, jobs are analysed into parts, known as elements. Values for these elements are developed. Many jobs have common elements, and sometimes jobs can be completely built up from elements taken during previous studies. This last method of development is known as synthetic valuation.

Criticism is often levelled against Bedaux study work on the score that it does not attempt to deal with improving methods or organisation. This criticism is only valid in that attention is not normally concentrated on definite investigations on a laboratory scale; for example, on detailed methods of training workers, and on similar work.

Unless a study staff is allocated for the purpose, such work is rather outside the scope of work measurement.

On the other hand, however, every effort is made to discover wrong methods, redundant operations, and all other sources of waste and, further, to suggest practical remedies. Good studywork will always reveal sources of waste and will indicate methods of improvement, even in very efficient concerns.

Analysis of Work

It may be interesting to consider the essential difference between values based on work measurement and times given for piecework and premium bonus.

Suppose one man, 'A," is working a machine which involves continuous feeding and general attention while another man, "B," is engaged on a machine which requires only occasional feeding and little attention. Now, under the majority of piecework and bonus schemes, provided maximum output be secured from both machines each operator would be paid the same percentage increase on his hourly rate. Not so under any scheme based on work units. The worker who actually does more work would receive a higher percentage of bonus. Therefore, machine operator "A" would receive a higher percentage bonus than machine operator "B."

To understand fully the implications of work measurement, it is necessary to analyse and establish certain relations between output, machinery and applied human effort.

Maximum output is limited by factors other than applied human effort. For example, technical considerations may impose restrictions on the speed of machines and processes. Or, again, a lack of balance in the relative productive capacities engaged in a sequence of operations may have the same effect. Or, again, taking hand work instead of machines, where there is a continuous chain of operations, there may be a lack of balance in the work available for the different workers.

Work, in general, from the standpoint of measurement can be divided into two classes: (1) hand work and (2) machine or process work. Further, the second class can be sub-divided into three groups: completely restricted work, partially restricted work, and unrestricted work.

Hand work includes only those operations performed by human effort without the aid of plant and machines.

Machine work includes all operations and processes carried out with the aid of plant and machines.

Completely restricted work exists in cases where output is entirely dependent upon the speed machines or process. It presupposes the presence of sufficient labour to operate and supply at constant and fixed speed. Output cannot be increased by human effort over above a known maximum production capacity.

Partially restricted work refers to cases where output is only partially dependent upon the speed of machine or process. It includes a proportion of manual work which can be done at the operator's own speed.

Unrestricted work exists in cases where output is entirely dependent upon the speed of manual work.

The above analysis is really essential to an understanding of work measurement. The following examples may help to simplify.

(1) Hand Work.

(a) Restricted: an operator oramenting chocolates as they come off a dipping machine; she can deal only with the work produced by the machine.

(b) Unrestricted: an operator on ordinary hand work, filing, packing cases, wrapping parcels, and so forth; it rarely includes conveyor work, however.

(2) Machine Work.

(a Restricted: an operator working certain types of riveting machines or feeding tins into a drying oven.

(b) Partially restricted: an operator working a lathe, milling machine, or planer.

(c) Unrestricted: an operator working a sensitive drill (under certain conditions).

An operation of a restricted character almost inevitably necessitates the inclusion of "process allowance" in the value. Process allowance places an operator, whose particular job may not permit him to produce more than, say, 40 Bs. per hour, in the position that may earn bonus.

From the standpoint of labour cost only, process allowance is an excess cost, as it is granted on account of time which might possibly be employed on other work. More frequently, however, it is unavoidable and the increased introduction of machinery and mechanical aids will probably lead to a rise in the percentage of process allowance in a works.

Here, it may be interesting to reflect on the effect which an improvement in labour effectiveness has on mechanisation and plant development. Where there are alternative methods of doing a job, one by hand and one by machine, before the introduction of labour measurement, the machine process will often have been the more economical. After the introduction of study work, however, the situation may be reversed. Improvements in supply work and equipment, better organisation, scientific, scientific work balancing, and an incentive to increase output have a cumulative result which is often surprising. Similarly, there will generally be an appreciable improvement in the effectiveness of the existing plant and machines. In the short run, this will tend to postpone the installation of additional machinery. In other cases, of course, scientific studies will show some machines to be so relatively inefficient that their use will be discontinued. This interplay of competition between hand and machine work and between the use of alternative machines, particularly when considered in relation to the effect on the volume of labour employment, is worthy of attention. The following case will instance the point.

A certain machine may be working with a gang of ten operators. The cost of the work may be high relative to competitive firms. The management may be offered a machine at a high purchase price which will produce double the output with a gang of two operators. Work study may show that the existing machine may be effectively run with a gang of six operators. This improvement may so offset the advantages of the new machine—taking into consideration high capital cost and possible difficulties of disposing of its output—that employment will be given to six operators instead of one, as would have been the case if the new machine had been bought.

This matter of capital development and labour employment is very controversial and the foregoing remarks are admitted to be inadequate and only to throw a sidelight on a subject which is, in itself, a digression from the title of the Paper.

Scope of Work Measurement

Work study can be, and has been, applied to almost every form of industrial activity. The basis of incentive payment and method of cost control will often differ from the standard Bedaux scheme which has been briefly described, but the essential features of work measurement will usually remain unchanged. Variety of product and process will not provide insoluble difficulties if it is possible to obtain physical output records of the required kind and form without undue expense in tallying, checking and recording. In this respect, however, it will be appreciated that the less standardised the output and processes are, the more necessary it is to have measurement and control.

CHAPTER NOTES

MONTREAL

Reported by R. Schurman, C.A., Secretary

The November number of "Cost and Management" arrived in Montreal this morning. Since then my telephone has been ringing—members wanting to know "What is the matter with Montreal?"

Well "my dear hearers", as Elder Lightfoot says, Montreal Chapter notes were not purposely omitted, and I apologize. In the last issue, the General Secretary kindly helped out with the Chapter notes of Hamilton and Central Ontario—Montreal now speaks for itself.

Meeting, October 12, 1934

Opening Dinner—Speaker, Dr. W. C. Clarke, Federal Deputy Minister of Finance. Subject—Unannounced. All Directors and possible attending newspaper reporters were strictly enjoined to secrecy and to silence. The Head Table was banked and graced with an expectant representative group of business and educational men. The attendance "on the floor of the house" was one of the best on record. My register shows that 162 were present.

Dr. Clarke in his opening remarks, very candidly admitted that pressure of work due to the floating of the new Dominion Loan which was such a pronounced success, had not permitted him sufficient time to prepare the type of address which he desired to give. He had hoped that during the trip to Montreal he could quietly review many of the interesting phases of economic activity which centre in and about Parliament Hill—BUT "the best laid plans o' mice and men gang aft aglee"..on the way down he was fortunate, or unfortunate enough, to meet an interesting travelling companion, and he arrived at the Dinner full of enthusiasm, happy memories and exuberant goodwill. He did tell us a little about the success of the "loan", and considerable regarding the value of a college education. He has a most pleasing personality and undoubtedly has a wide experience from which to draw in abundance, those things which Cost Accountants love to hear about. Some time in the future, when he is not overcrowded with work, we hope to be fortunate enough to have him with us again.

Meeting, October 26, 1934

"The Need of Better Cost Accounting in Life Insurance Companies", by G. Fay Davies, of London, Ontario, Asst. General Manager of the Northern Life Insurance Company.

The writer has listened to many speakers on the subject of cost accounting, but never to a greater booster for the profession than Mr Davies. If the suggestions which he outlined in his most carefully prepared and printed address could be adopted by insurance companies, then a whole new avenue of professional endeavour will be open to the cost accounting fraternity. A printed copy of the address was delivered to each member present; it is so full of original ideas that it gives one a headache to try to follow it during a first reading. The material is sound, and the lecture was enhanced by the pleasing platform manner and the voice of the speaker. As a matter of general interest to the profession, we hope that this address may be reprinted in "Cost and Management", as a permanent record. We were able to secure the address by Mr. Davies, through the good offices of our Director, Mr. B. A. Dugal, Superintendent of Insurance for the Province of Quebec, who introduced the Speaker.

In the absence of our Chairman, Mr. Paul Dufresne, Mr. P. W. Wright, of the Shawinigan Engineering Company, our Vice-Chairman, presided at the Meeting. This was Mr. Wright's first official appearance as presiding officer and he performed his task with dignity, neatness and dispatch.

Meeting, November 9, 1934

All the while the other activities above reported were in progress, the officers and directors of our Chapter, in their respective capacities as officers of the Hope Washing Machine Company, Limited, were struggling with the preparation of facts and figures for the annual meeting of shareholders of that Company. The Diplomatic Secretary, George Bowden, called the meeting in the necessarily usual stereotyped form. According to the Chapter notice of meeting, each Chapter member or his friend, was constituted a shareholder of the now famous Hope Company.

With many recollections of the last Annual Meeting of this important baby Company, we watched and waited and hoped. Directors Patton and Blunt had prepared a most voluminous auditors' report on the affairs of the Company for the past year. Chairman Dufresne, who had been named by the bankers of the Company in an official capacity as Industrial Engineer, was reported to have become sick of the job and had thrown it up because he could not get proper information from "President" Buzzell or the "Factory Superintendent and Works Manager" MacKenzie.

Professor R. R. Thompson, a shareholder, who last year was supposed to be out of work and who was named Chairman of the Shareholders' Committee to investigate the affairs of the Company, explained on questioning that he was not out of work; that he had never been out of work; that for a long time he had a very good job "cleaning blackboards at McGill"; that he had pitied the position of the poor shareholders who were being duped by the officers of the Hope Company. In collaboration with the other members of the investigating committee, he had prepared a most exhaustive report. The committee had very little good in this report to say about the management of the Company, either in respect to their efficiency, integrity or good manners.

President Buzzell, after repeated and vain attempts to block the reading of the report, did his best to explain away the criticism, and called for a vote condoning the stupendous efforts of all his Directors. "In favour?"—not a hand went up!

The President also did his best to prevent the reading of the auditor's report, but without avail. The shareholders were determined to obtain all the information possible—and how they got it!

Our usual meeting room was entirely too small, and the larger room taken for this meeting was filled to overflowing. Nearly every shareholder present had something to say. Mimeographed copies of the balance sheet, trading and profit and loss statements, auditors' report and also report of the shareholders committee, were placed in the hands of the shareholders. The balance sheet showed that the Company was in a very precarious position financially. One disgruntled shareholder, with an eye on the future prospects, and the possible loss of his dough, made the suggestion that the investment account of the Company, represented chiefly by investments in subsidiary companies, which he assumed might be the following—Hope Shoe Factory; Hope Bread Company; Hope Fish Company; Hope Construction Company—be merged and a new flotation and issue of bonds made under the name of "United Hope Companies" and that all share-

holders present be urged to buy only Company products under the slogan "Produced in Hope Land."

Messrs. Patton and Blunt were re-appointed as auditors and the old Board of Directors, despite their protests of innocence and threats of prosecution, were thrown out bag and baggage, and a new group headed by Professor Thompson, elected.

The meeting was interesting, humorous and instructive. A mock annual meeting of this type is a good place to sharpen one's wits.

General

The membership of the Montreal Chapter is growing. We still feel a continuing and especial interest in the members from surrounding districts, classed as "out-of-town members."

We receive a few applications for employment, and in general keep alive the spirit and the progress of Cost Accounting.

One of our members, Mr. A. V. Madge, recently gave a paper on Graphic Charts before the Montreal Branch of the General Accountant's Association, in session at McGill University. Extract of this report is being prepared for publication.

A register is kept of the individual attendance of each member at the regular meetings, with a notation regarding special subjects for which any may have a special preference.

TORONTO

Reported by Scott Fyfe, Assistant Secretary

At the November meeting over seventy members and guests of the Chapter listened to a most acceptable talk by Mr. G. H. Armstrong, of the International Business Machines Co., Ltd., New York, on the Cost of Distribution. Mr. Armstrong stressed the fact that while much had been said and written about costing distribution, very little had actually been done, and that savings possible of achievement through scientific application of costing principles to this field were even greater than those which have been effected in the manufacturing end of industry. Mr. Armstrong's address appears in full in this issue of Cost and Management.

A real treat is in store on December 7th, when four of our own members, Messrs. B. W. Lang, of Goodyear Tire and Rubber Co., G. Abrams, C.A., of J. P. Langley & Co., R. H. Metcalfe, of Massey-Harris Co., Ltd., and R. W. E. Dilworth, C.A., of Clarkson, Gordon, Dilworth, Guilfoyle and Nash, debate on the subject "Resolved that Depreciation Charges Should be Based on Volume of Business Rather Than on Time". The first two gentlemen named will uphold the affirmative, with the negative being taken by Mr. Metcalfe and Mr. Dilworth. Ample opportunity will be afforded members who have definite views on the subject to contribute to the discussion period. It should turn out to be one of the best meetings of the year.

CENTRAL ONTARIO

On November 16th the first meeting held in Woodstock under the auspices of this Society, took place. The attendance of members was small, but there was a good turnout of visitors from Woodstock and nearby points.

About twenty-five took part in the visit to the plant of La France Textiles, Ltd., which started about 4 p.m., and which had been arranged by Mr. R. Odendahl, our representative from that company. The plant is extensive, the processes are varied, and it was evident that those present were much impressed. Following this plant visit, about twenty had dinner together at the Commercial Hotel.

The evening meeting was held in the show-room of the La France Textiles, Ltd., the speaker being Professor W. S. Ferguson, C.A., of Shaw Schools, Ltd., and the University of Toronto. His subject was the Dominion Companies Act, and the address was listened to with much interest. About thirty were present in the evening, including past president LeBrocq and A. Smith of Hamilton.

WINNIPEG

On Monday, November 12th, the first meeting of the season was held, through the courtesy of the North Star Oil Co. in their offices. Eleven members and three guests were present. The meeting took the form of a round-table discussion on the new Dominion Companies Act. The discussion was led by the Vice-President of the Chapter, Mr. J. G. Mundie, C.A., and a number of aspects of the legislation were discussed in detail.

Following the discussion, a motion was passed authorizing the appointment of a committee of three to receive and consider questions relating to the new Act. Members of the Chapter will be invited to send in their questions and it is intended that these will later be submitted to the Department of the Secretary of State.

The next meeting of the Winnipeg Chapter will be held early in December in the form of a luncheon and plant visit to Canada Packers Limited, on invitation of Mr. Sinclair of that organization, also a director of this chapter.

HAMILTON

Reported by R. Dawson

The two meetings of the Hamilton Chapter during the month of November will go down in the history of the chapter as two of the very best ever held and there is no doubt but that new interest is being created among the members. On November 15, Mr. W. T. Brickenden of Thorne, Mulholland, Howson & McPherson, Toronto, was the speaker and his subject was "Plant Engineering in Relation to Costs."

It is safe to say that this subject was covered better by this speaker than any who has previously talked to the Hamilton Chapter in this connection. Mr. Brickenden covered the whole matter from stem to stern in a manner which left no room for argument and the reception given him at the close showed how much the members appreciated his talk and the manner in which it was delivered. Mr. Brickenen's address will appear in Cost and Management so that no useful purpose will be served by repeating it here. About thirty members and friends attended and those who were not present certainly missed a remarkably fine meeting.

On November 28, Harry H. Hallat of Toronto spoke at a Dinner Meeting held at the Wentworth Arms Hotel before about seventy members and guests and this is the largest number to attend a Hamilton

meeting in years. His subject was "The Scientific Wage Dollar Money System" and the speaker, after reviewing the origin of the present supposed gold standard went onto show how our present money was practically all bookkeeping money and existed solely on bank ledger sheets. He further explained that this bookkeeping money is based, not on gold, but on the real wealth of the nation, that is, on real created units of wealth. He proposes to do nothing except to change the authority for the issuance of this money, based on the real wealth of the nation and to place this authority in the hands of the Federal Government. Mr. Hallatt spoke for nearly two hours on the subject and answered numerous questions at the close. While there were many present who possibly did not agree with the speaker and others who confessed themselves still in a fog, there were many who were convinced that the speaker has something, which if adopted, would go a long way toward solving our present economic ills.

The attendance team records show #5 Team, captained by your narrator, leading by one point over Alex Howey's team. Mr. Menzels team comes next, very close and then Maurice Long's team and Harold Wright and his gang.The two latter had better hurry or they will be left. Incidentally a record is being kept of the attendance of members at all meetings and prizes will be awarded to the three best attenders at the end of the season. There are some members who have not yet attended any of the three meetings. They don't know what they are missing.

The next meeting of the Hamilton Chapter is scheduled for December 12th, when Mr. J. E. McKee, a former member of the Hamilton Chapter and now located in Toronto with the International Business Machines Limited, will speak on "Business Machines as Applied to Accounting and the Compilation of Statistics." This talk can in no sense be construed as a sales talk and we can assure the members that Mr. McKee certainly knows his stug. Everyone should make a real attempt to attend this meeting and also to bring along a guest.

THE TREND OF PRODUCTION COSTS

Commodity prices as measured by the Dominion Bureau of Statistics index number, which is based on the year 1926, declined from 72.3 in August to 72.0 in September. The following is a comparison by main groups:

	September 1933	August 1934	September 1934
Foods, beverages & tobacco	65.7	68.9	69.4
Other consumers' goods	77.3	77.2	77.3
All consumers' goods	72.7	73.9	74.1
Producers' equipment	85.6	89.6	89.6
Building & construction materials	80.8	83.0	82.9
Manufacturers' materials	60.4	65.3	64.0
All Producers' materials	63.4	67.9	66.7
All producers' goods	65.6	70.1	69.0
All commodities	68.9	72.3	72.0

The principal declines in September were in the following: Fresh fruits, grains, flour and milled products, vegetables, raw cotton, silk fabrics and scrap iron. The principal advances in September were in: Vegetable oils, fishery products fats and eggs.

Commodity prices, as measured by the Dominion Bureau of Statistics index number,, which is based on the year 1926, declined from

72.0 in September to 71.4 in October. The following is a comparison by main groups.

	October 1933	September 1934	October 1934
Foods, beverages and tobacco	64.7	69.4	69.1
Other consumers' goods	77.1	77.3	76.9
All consumers' goods	72.1	74.1	73.8
Producers' equipment	85.4	89.6	89.5
Building & construction materials..	81.0	82.9	82.5
Manufacturers' materials	57.5	64.0	62.6
All producers' materials	60.9	66.7	65.5
All producers' goods	63.4	69.0	67.9
All commodities	67.9	72.0	71.4

The principal declines in September were in the following: Dried fruits, grains, sugar and its products and glucose, live stock, meats and poultry, raw wool, wool yarns, and soap. The principal advances during the month were in: Fresh fruits, hides and skins, eggs, antimony and silver.

TARIFF and TAXATION

DEPARTMENT OF NATIONAL REVENUE

Departmental Rulings

"Marshtile," per sample, a wallboard manufactured wholly or in part of vegetable fibres with one side coated and finished to represent tile. Tariff item 192.

Cel-O-Glass per sample, consisting of iron wire mesh coated with cellulose acetate, used as a substitute for window glass in greenhouses, hen houses, etc. Tariff item 446a, the iron mesh being the manufactured component of chief value.

The "Stuebing" Metal Edger, per illustration, a hand operated machine designed for finishing printed or lithographed matter, such as calendars and wall hangers, by edging them with a piece of tin or other metal. Tariff item 427.

Small hand tools, such as wrenches, screwdrivers, hammers, cold chisels and oilers, supplied with a machine for the adjustment and maintenance thereof, may, when imported with the machine and included in the price, be entered at the same rate as the machine, This ruling does not apply if the tools are charged for separately on the invoice, nor to separate importations of such tools.

When two or more automobiles, brought into Canada by a settler, qualify for entry under the provisions of tariff item 705a and the combined value is over one thousand dollars, the exemption of one thousand dollars should be allowed on the value of the car or cars bearing the highest rate of duty.

Ottawa, 3rd November, 1934.

United States Processing Taxes

By Order in Council (P.C. 213/2575) dated the 19th October, 1934, passed under the authority of Section 36a of the Customs Act, as enacted by Chapter 48 of the Statutes of 1934, and Sub-section 2a of Section 6 of the Customs Tariff, as enacted by Chapter 49 of the Statutes of Canada, 1934, it is ordered that the processing or com-

pensating taxes imposed in respect of goods hereunder named in the country hereunder specified be disregarded in estimating the market value of such goods for the purpose of special duty, namely:—

Tax	Goods	Country
Processing Tax and Compensating Tax imposed under the Agricultural Adjustment Act	Wheat Products	United States of America
Processing Tax and Compensating Tax imposed under the Agricultural Adjustment Act	Corn Products	United States of America
Processing Tax imposed under Federal Authority	Vegetable Oils	United States of America

This order is effective on and after the 3rd November, 1934, the date of publication in Canada Gazette.

Ottawa, 10th November, 1934.

Unset Diamonds from the United Kingdom

It has been brought to the Department's attention that importations of unset diamonds from the United Kingdom which are not cut or polished in that country are being entered under the British Preferential Tariff, special excise tax being paid at the rate of 1½ per cent.

The Department is informed that, while some diamonds are cut and polished in the United Kingdom, in most cases this operation is performed in Belgium and Holland, and diamonds cut in these latter countries would not be entitled to entry under the British Preferential Tariff irrespective of their origin.

Effective on and after this date all importations of unset diamonds are to be entered under the General Tariff unless the invoice bears a certificate signed by the exporter to the effect that the diamonds have been cut and polished in a British country.

Ottawa, 27th October, 1934

Supplement No. 2 to Appraisers' Bulletin No. 4250

The Honourable the Minister of National Revenue has ordered that the fixed valuation for duty purposes of Grapes set forth in Appraisers' Bulletin No. 4250, be cancelled insofar as it applies to points in ONTARIO AND EAST THEREOF, effective the 29th October 1934.

REFERENCE LITERATURE

RECEIVED IN NOVEMBER

Creamery & Dairy Products, Accounting For. Journal of Accountancy, November.

Capital Structures, Revamping. N.A.C.A. Bulletin, Nov. 15.

Holding Company Expenses Among Subsidiaries by Research and Service Department, The Distribution of. N.A.C.A. Bulletin, Nov. 15.

Grain Elevator Companies, Line—Some Features Regarding their Operations and Accounting Records. Canadian Chartered Accountant, November.

Uniform Cost Accounting Under the N.R.A. Certified Public Accountant, November.

Budgetary Control and Application of Overheads. Accountants Magazine, November.
Dominion Companies Act, 1934, The New. Canadian Chartered Accountant, October.
Depreciation Policy of the Bureau of Internal Revenue (U.S.) Under Treasury Decision 4422. N.A.C.A. Bulletin, Nov. 1, 1934.

MEMBERSHIP CHANGES — OCTOBER, 1934

MONTREAL CHAPTER

Resignations

St. Denis, B., Direct Sales Corpn., Ltd., Montreal.
Roberts, F., Wabasso Cotton Co., Ltd., Three Rivers. (Changed to non-resident).

Change of Address

Bernier, J. I., from McEwen Cameron, Ltd., to Lymans, Ltd.

New Members

Campbell, P. C., 215 Rielle Ave., Verdun.
King, E. W., Eastern Dairies, Ltd., Montreal.
Stevenson, R. C., C.A., A. K. Fick, Skelton & Co., Montreal.
Redpath, J. P., 1431 Bishop St., Montreal.
Glithero, J. G., Dominion Glass Co., Ltd., Montreal.
Carson, P. W., Southam Press Montreal, Ltd., Montreal.
Russell, G. A., Canada Cement Co., Ltd., Montreal.
Anderson, E. G. F., 690 Richard Ave., Verdun.

TORONTO CHAPTER

Resignations

Slater, F. C., Jr., Gendron Manufacturing Co., Ltd., Toronto. (Transferred to subscriber).
Eddis, C. S., F.C.A., W. C. Eddis & Sons, Toronto. (Membership transferred to K. E. Greenwood).

Change of Address

Flynn, J., Oscar Hudson & Co., to 199 Bay St., Toronto.

New Members

Ewles, D. W., Copeland-Chatterson, Ltd., Brampton.
Berney, J. P., Canadian Wirebound Boxes, Ltd., Toronto.
Greenwood, K. E., C.A., W. C. Eddis & Sons, Toronto.

VANCOUVER CHAPTER

Phillips, T. F., Sterling Food Markets, Vancouver. Deceased.

NON-RESIDENT

Peterson, E. E., Union Milk Co., Ltd., 130-5th Ave. E., Calgary, Alta.
Roberts, F., Wabasso Cotton Co., Ltd., Three Rivers, Que. (Transferred from Montreal Chapter).

MEMBERSHIP CHANGES—NOVEMBER

MONTREAL CHAPTER

New Members

W. J. Cope, Wm. Dow & Co., Montreal.
Davis, V. A., B. B. Glove Mfg. Co., Ltd., Ayer's Cliff, Que.
Morin, L. P., C.P.A., Morin, Barry, Cote & Marceau, Quebec, Que.
Riepert, H. E., C.A., Champlain Oil Products, Ltd., Montreal.

TORONTO CHAPTER

Resignations

Prior, P. G., Associated Quality Canners Ltd. Membership transferred.
Smith, H. R., Taylor Instrument Companies of Can., Ltd. Membership transferred.

New Members

Kennedy, T., Taylor Instrument Companies of Can., Ltd., Toronto.
Tallman, H. T., Associated Quality Canners, Ltd., Toronto.

HAMILTON CHAPTER

Resignation

Klager, G. T., Dominion Woollens & Worsteds, Ltd., Hespeler, Ont.

New Members

Martin, J. S., Canadian Westinghouse Co., Ltd., Hamilton.
Schaefer, A., Steel Company of Canada, Ltd., Hamilton.

CENTRAL ONTARIO CHAPTER

New Member

Henderson, J., Newlands & Co., Ltd., Galt.

Non-Resident Membership
New Member

McMackin, H. L., C.A., Hudson, McMackin & Co., St. John, N.B.

GENERAL FOODS LAUNCH NEW PENSION PLAN

(From the Toronto Globe)

Assurance of old-age retirement incomes is given General Foods employees through a new co-operative annuity plan announced to-day by R. K. McIntosh, Vice-President and General Manager, General Foods, Ltd., Toronto. The plan affects General Foods employees in forty-five plants and twenty-nine sales divisions and districts in Canada and the United States.

Joint contributions of company and employees will provide fixed monthly incomes to be paid employees when they reach retirement eligibility—age 60 for women, 65 for men. General Foods pays more than half the total cost of the retirement plan.

"For years we have been working on the development of a plan to eliminate old-age insecurity for our employees," states Mr. McIntosh. "The system we are now instituting has several unusual features."

September 1, 1934, has been designated as the date when the plan goes into effect. All employees of General Foods and subsidiary companies in Canada and the United States, now under retirement age, who have been with the organization one year prior to September 1 are eligible to participate, but particiption is not obligatory.

General Foods will deduct payments of participating employees directly from salary checks. These funds, together with the company's contributions, will be immediately turned over to two large insurance companies. Those companies will handle the administration of the plan and assure security of all payments.

WAYS TO KILL A SOCIETY

1. Don't come to the meetings.

2. But if you do come, come late.

3. If the weather doesn't suit you, don't think of coming.

4. If you do attend a meeting, find fault with the work of the officers and other members.

5. Never accept an office, as it is easier to criticize than to do things.

6. Nevertheless, get sore if you are not appointed on a committee, but if you are, do not attend committee meetings.

7. If asked by the chairman to give your opinion regarding some important matter, tell him you have nothing to say. After the meeting tell everyone how things ought to be done.

8. Do nothing more than is absolutely necessary; but when other members roll up their sleeves and willingly, unselfishly use their ability to help matters along, howl that the association is run by a clique.

9. Hold back your dues as long as possible or don't pay at all.

10. Don't bother about getting new members. Let the secretary do it.

11. When a banquet is given, tell everybody money is being wasted on blowouts which make a big noise and accomplish nothing.

12. When no banquets are given say the association is dead and needs a can tied to it.

13. Don't ask for a banquet ticket until all are sold.

14. Then swear you've been cheated out of yours.

15. If you do get a ticket, don't pay for it.

16. If asked to sit at the speaker's table, modestly refuse.

17. If you are not asked, resign from the association.

18. If you don't receive a bill for your dues, don't pay.

19. If you receive a bill after you've paid, resign from the association.

20. Don't tell the Club how it can help you; but if it doesn't help you, resign.

21. If you receive service without joining, don't think of joining.

22. If the Club doesn't correct abuses in your neighbour's business, howl that nothing is done.

23. If it calls attention to abuses in your own, resign from the Club.

24. Keep your eye open for something wrong and when you find it, resign.

25. At every opportunity threaten to resign and then get your friends to resign.

26. When you attend a meeting, vote to do something and then go home and do the opposite.

27. Agree to everything said at the meeting and disagree with it outside.

28. When asked for information, don't give it.

29. Cuss the Club for the incompleteness of its information.

30. Get all the Club gives you but don't give it anything except h—.

31. When everything else fails, cuss the Secretary.

From the Engineering Journal.

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